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## **INTRODUCTION**

Genesee County Community Mental Health (GCCMH) entered into contracts with the Michigan Family Independence Agency (FIA) to perform the fiduciary function for the Strong Families/Safe Children (SF/SC) and Post Adoption Services (PAS) programs in Genesee County. The 1998 contract number was FID 98-25001 for \$785,000, of which \$735,000 was funded by Catalog of Financial Domestic Assistance (CFDA) #93.556, Family Preservation and Support Services, and \$50,000 by CFDA #93.558, Temporary Assistance to Needy Families (TANF). The 1999 contract numbers and amounts are FID 99-25001 for \$713,981 (funded 55% by CFDA #93.556 and 45% by CFDA #93.558), and FID 99-25002 for \$50,000 (funded by CFDA #93.558 only). Collectively, these contracts covered the period October 1, 1997 through the present. These contracts state that GCCMH was to be reimbursed for its actual costs incurred in providing the services. Payment was made quarterly in advance by FIA.

## **SCOPE**

The Office of Internal Audit performed an audit of GCCMH to determine if they complied with the terms of their contracts with FIA, and if systems, procedures and monitoring operations of GCCMH are in compliance with standards, policies and regulations as established by FIA and the Federal guidelines. Our audit included GCCMH's sub-contacting policies, monitoring process, equipment purchasing policy, and year end closeout procedures. Our audit was conducted in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

## **EXECUTIVE SUMMARY**

Based on our audit, we concluded that GCCMH was not in compliance with some of the provisions of its contract with FIA, and standards, policies and regulations established by

FIA and Federal guidelines. The lack of compliance with Federal Office of Management and Budget Circular A-133 will result in a significant amount of questioned costs if GCCMH fails to implement appropriate corrective action. A description of all the areas of noncompliance and our recommendations for corrective action follow.

## **FINDINGS AND RECOMMENDATIONS**

### **Late Reimbursement of Excess Advance**

1. GCCMH did not reimburse FIA timely for the amount of advance payment GCCMH had received in excess of the amount expended for contract FID 98-25001. This amount was paid on February 22, 1999. According to the contract requirements, Section C, sub-section i, GCCMH was to cost settle actual expenditures with FIA within 45 days of the end of the contract, which was 9/30/1998.

WE RECOMMEND that the FIA Field Operations Administration (FOA) work with GCCMH to cost settle within the time limits as specified in the contract.

### **GCCMH RESPONSE**

“The timing of the reimbursement of the excess advance was related to the lack of a timely FIA advance payment for the FY99 contract. A signed contract and advance payment for FY99 contract services were not received from FIA until February, 1999. GCCMH avoided disruption of service provider subcontracts and maintained continuity of service to consumers by delaying repayment of the FY98 advance.”

### **FID 98-25001 Year End Closing**

2. GCCMH reimbursed FIA \$1,054.40 more than the excess amount they received. Actual expenses incurred for this contract were \$590,640.75. GCCMH reimbursed FIA \$195,413.65. Therefore FIA owes GCCMH \$1,054.40 ( $\$785,000 - \$590,640.75 - \$195,413.65 = \$1,054.40$ ).

WE RECOMMEND FOA initiate the process to reimburse GCCMH \$1,054.40 for their excess reimbursement.

GCCMH RESPONSE

No response submitted.

FID 98-25001 Over Spent Line Item

3. GCCMH billed \$7,251.42 of supplies expense to line items other than Supplies. Reclassifying these expenses will result in the Supplies line item being \$7,181.05 over budget. The contract states that the contractor must obtain written approval from the Agency to increase any line item by more than 5% or \$3,000, which ever is greater.

WE RECOMMEND FOA work with GCCMH to ensure that expenses are properly classified.

WE ALSO RECOMMEND FOA either obtain and approve a retroactive request for a line item transfer for contract FID 98-25001, or initiate the process to recoup the excess amount of supplies expense not included in the contract budget.

GCCMH RESPONSE

“The expenses were billed to the Contracts line item as they were supplied through a subcontractor. This was consistent with the budget plan and our understanding of the FIA billing procedure from the previous fiscal year.”

#### Sub-Contracting

4. GCCMH made payments of \$9,906.14 to four (4) subcontractors in fiscal year 1998 for services not included in the plan. Costs associated with services not in the approved plan are not allowable.

WE RECOMMEND FOA obtain a retroactive service plan from GCCMH for 1998, approve the services they would have approved if the plan had been submitted in advance, and initiate the process to recoup the overpayments made for services that would not have been approved.

WE ALSO RECOMMEND FOA work with GCCMH to ensure that a service plan is properly approved for the 1999 contracts.

#### GCCMH RESPONSE

"Payments to four (4) subcontractors in the amount of \$9,906.14 were made consistent with the proposed budget allocation and service plan as submitted to FIA 1/16/98 ..."

#### Proper Processing of Expenditures

5. GCCMH made payments to themselves in the amount of \$154,134.76, and included these funds in the Contracted Services line item as if they were the subcontractor. GCCMH, as the subcontractor, paid money to others to provide respite services. Respite services were an allowable cost of this contract, however, it was inappropriate for GCCMH to subcontract with itself in this manner.

WE RECOMMEND FOA advise GCCMH to either subcontract with the providers of respite services or bill the cost of these services under a different line item.

#### GCCMH RESPONSE

“All respite care services are provided through contracted vendors. Since GCCMH had previously established a respite care services program through contracted vendors, approved SF/SC respite services were coordinated and provided through this same program. This was done to reduce administrative expenses and avoid duplication of services. GCCMH was reimbursed in the amount of \$106,145.08 for SF/SC respite services expenses which were initially charged to their contract with the Department of Community Health (DHC). The balance of payments cited were to Genesee County for other services in the approved plan that were provided and/or coordinated through the county’s Health Department.”

“GCCMH did not subcontract with itself for any services.”

#### Amending Subcontract Budget

6. GCCMH approved expense reports for a subcontractor’s expenses, (Ennis Center for Children, Inc.) which included line item expenditures that were not established in the approved budget. There was no documentation requesting line item changes on file with GCCMH.

Expenditures on the expense reports should be spent according to the budget in the subcontract. If the sub-recipient intends to spend funds other than as stated in the budget, they need to obtain prior approval from GCCMH.

WE RECOMMEND FOA instruct GCCMH to obtain and approve a retroactive budget adjustment from Ennis Center for costs they would have approved, and recoup and reimburse to FIA any costs that would not have been approved if Ennis Center had asked for the line item transfer.

WE ALSO RECOMMEND FOA advise GCCMH of the need to have approved budgets in place that reflect the line items and costs that GCCMH intends to pay for in the subcontract.

#### GCCMH RESPONSE

“GCCMH was aware of and did provide prior approval of the amended budget plan for the wraparound services contract with the subcontractor. This amended plan also had been reviewed and approved by the wraparound community team, of which GCCMH is a partner. A signed amendment to the original contract budget was not processed.”

#### Contract Language for Subrecipients

7. GCCMH did not always include the Catalog of Federal Domestic Assistance number (CFDA#), Federal Financial Participation percentage (FFP%), or the audit requirements in its subcontracts. In addition, some of its subcontracts indicated an audit was required if the subcontractor received \$25,000 of federal funds, although this threshold has been raised to \$300,000. Federal Office of Management and Budget (OMB) Circular A-133, Subpart D.400 requires recipients to inform their subrecipients of the amount of federal assistance, the CFDA number, and the audit requirements associated with those funds.

WE RECOMMEND FOA work with GCCMH to ensure they comply with Federal requirements for subrecipients.

#### GCCMH RESPONSE

No response submitted.

#### Subrecipient Single Audit Reports

8. GCCMH did not have a process in place to identify subrecipients that received in excess of \$300,000 in federal funds. OMB Circular A-133 requires that the recipient of federal funds identify sub-recipients who receive in excess of \$300,000 in federal funds, obtain a copy of the Single Audit Report for those agencies, and ensure that appropriate corrective action is taken for all findings and questioned costs identified

in the subrecipient's Single Audit Report. Failure to obtain and review the audit reports and take appropriate corrective action for findings and questioned costs could result in loss of Federal funds for the program.

WE RECOMMEND FOA ensure that GCCMH is aware of the requirements for reviewing Single Audit Reports of its subrecipients and implement this requirement.

GCCMH RESPONSE

No response submitted.

Vendor or Subrecipient Determination

9. GCCMH did not have a process in place to determine whether their subcontractors were vendors or subrecipients. GCCMH is required to follow all OMB Circular A-133 requirements for subrecipients, but those requirements do not apply to vendors. Proper identification of subrecipients and vendors is necessary to ensure compliance with OMB Circular A-133.

WE RECOMMEND FOA ensure that GCCMH implements a process to determine whether each subcontractor is a subrecipient or a vendor.

GCCMH RESPONSE

No response submitted.

Subcontracting Fiduciary Responsibilities

10. A GCCMH employee did not always approve expense invoices submitted from subrecipients for payment, as required by Section C.1.b of the contract. In some instances only the Collaborative Coordinator approved the invoice, and in other instances no one approved the invoice. Approving expenses is a fiduciary



responsibility, and the contract specifically prohibits subcontracting fiduciary responsibilities to other entities.

WE RECOMMEND FOA ensure that GCCMH does not assign any of its fiduciary responsibilities to other entities.

#### GCCMH RESPONSE

“GCCMH employees do review and approve all payment requests. Following review and expense invoice development by the SF/SC coordinator, the GCCMH accountant reviews all expense billings. In addition, another GCCMH employee, the Finance Committee chairperson, reviews all expense requests at the monthly SF/SC Finance Committee meetings. Finally, the CMH Board’s Finance Committee reviews and approves all SF/SC expense payments.”

“The fiduciary agent responsibilities have not been assigned to other entities.”

#### Amending Subcontracts

11. GCCMH transferred \$8,700 from Flint Community Schools to Urban Community Youth Outreach Program (UCYO), thus amending both subcontracts. The amended versions of these subcontracts were not signed by an authorized GCCMH employee. The proper method to amend each subcontract is with written approval of GCCMH.

WE RECOMMEND FOA ensure that GCCMH has procedures in place to ensure that all amendments to subcontracts are properly approved by GCCMH.

#### GCCMH RESPONSE

“The amendments to the original subcontracts for the collaborative programming were reviewed and approved by GCCMH prior to action by the subcontractors. A written notice of the amendment was forwarded and signed by one of the subcontractors.... Signed amendments to both original contracts’ budget detail were not processed.”

#### Recoupment

12. OMB Circular A-133 requires that federal funds be included as questioned costs by auditors for programs where the pass through agency did not monitor the subrecipient or review their Single Audit Report and take appropriate corrective action. As noted above, GCCMH did not meet these oversight requirements for its subrecipients. If proper oversight requirements are not implemented, it will be necessary for FOA to start the process to recoup the entire amount of federal expenditures for these contracts for 1998 and 1999.

WE RECOMMEND that FOA determine if GCCMH complied with all monitoring and oversight requirements of OMB Circular A-133 subsequent to the completion of our audit, and initiate the process to recoup all federal funds expended under these contracts for which GCCMH has not complied with the monitoring and oversight requirements.